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Cotton and Products

Annual

2005

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Report Highlights:
The harvest of Australia's 2004/05 cotton crop is now well under way, with production projected at a better than previously expected 550,000 MT. Cotton production in 2005/06 is forecast to rise to 680,000 MT, as more normal weather conditions are expected to allow production to return to a level more reflective of pre-drought levels. In recent years, cotton area has been severely constrained due to drought and associated irrigation water shortages. Cotton exports are forecast to rise in marketing year 2005/06, reflecting the larger expected harvest. The bulk of Australia's cotton crop is produced with biotechnology.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Canberra [AS1]
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SECTION ONE: SITUATION AND OUTLOOK

General

Harvest of Australia's 2004/05 cotton crop is now in full swing, with the majority of the Queensland-grown crop now harvested and harvesting in New South Wales well under way. Above average rainfall recorded early in the growing season more than compensated for restricted irrigation water availability, helping push the 2004/05 crop above early season expectations. Below average rainfall in the lead up to and during the harvest period has been considered to be near ideal for a significant part of the crop, and is likely to result in good quality.

Cotton area and production are forecast to rise again in 2005/06, assuming normal weather conditions. Despite the year-over-year increase, the 2005/06 production forecast would still be below the relatively high production levels experienced prior to the recent drought, which commenced in 2002.

Recent dry conditions across large parts of eastern Australia have caused concern that the country may be returning to the drought conditions of 2002-04, which resulted in severe downturns in agricultural output, including cotton.

Biotech cotton has been grown in Australia since 1996 and is the only major agricultural crop grown commercially using this technology. The successful introduction of genetically modified varieties has benefited Australia's cotton yield and production. Also, a significant amount of information has been made public regarding the environmental benefits, i.e., reduced chemical usage, of growing genetically modified varieties.

Larger cotton crops estimated for 2004/05 and forecast for 2005/06 are expected to allow Australia's cotton exports to rise from the reduced level of 2003/04. Most of Australia's cotton exports are destined for Asian markets, with Indonesia, China, South Korea, Japan and Pakistan capturing the bulk of the trade.

Note: A series of charts are provided with this report to provide a longer-term perspective of cotton prices, area, production and exports. The data used to construct these charts is sourced from the Australian Bureau of Agriculture and Resource Economics (ABARE) and may not directly correspond to data used in the report's PSD, particularly for the more recent estimates.

Weather Conditions

The 2004/05 cotton season has seen a return to more normal rainfall, with most cotton cropping areas experiencing average to above average precipitation levels for the first half of the season and average to below average in the second half. These relatively favorable conditions allowed cotton area to expand significantly from the severely constricted levels experienced during the drought years of 2002/03 and 2003/04. Furthermore, irrigation water reserves have risen off historical lows, although still remaining at below normal levels. About 90 percent of Australia's cotton crop is typically irrigated.

Despite the general return to more normal weather conditions in 2004/05, drier than average conditions characterized the months of March and April 2005, with national meteorological data showing most of Australia's principal cropping belts experiencing well below average rainfall over this period. This dryness has actually been beneficial for 2004/05 cotton production, given the susceptibility to rainfall or moisture damage during the harvest period

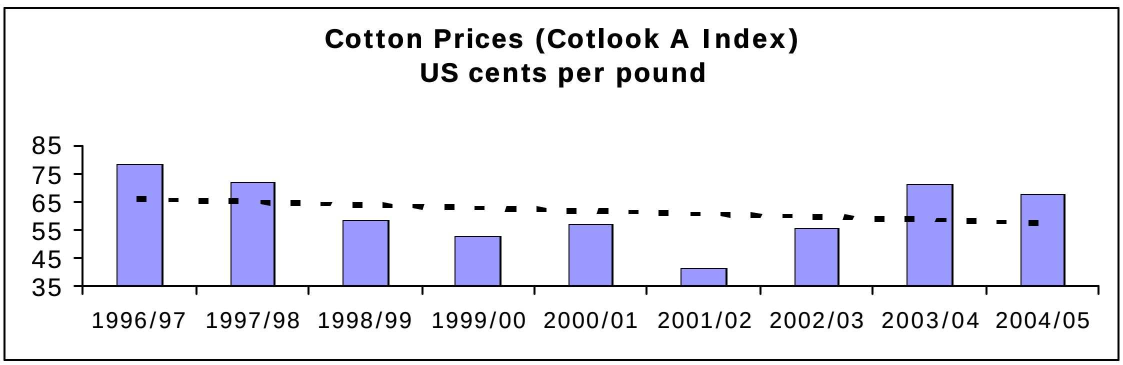
(March to May). However, any extended dryness will begin to impact the prospects for the 2005/06 crop, which will be planted later this year.

Prices

Australian cotton growers characterize cotton prices received in recent years as relatively poor. This unfavorable price situation has been a contributing factor, along with the drought, in sharply lowering cotton area in 2002/03 and 2003/04. A relative improvement in cotton prices prior to planting of the 2004/05 crop likely provided some boost to area.

The Australian Bureau of Agricultural and Resource Economics (ABARE) forecasts world cotton prices rising by 12 percent in 2005/06, to an average of about US57 cents/lb, in spite of a general decline in prices over recent months. Post's 2005/06 area forecast assumes cotton prices will remain at or above current levels.

The Australian dollar has risen sharply in value over the last four years, from a low of less than US$0.50 in 2001 to a high of nearly US$0.80 in 2005. With a large percentage of the cotton crop exported and domestic prices strongly correlated to world prices, the value of the Australian dollar has a large impact on local-currency returns to cotton producers.



Source: ABARE data (July-June).

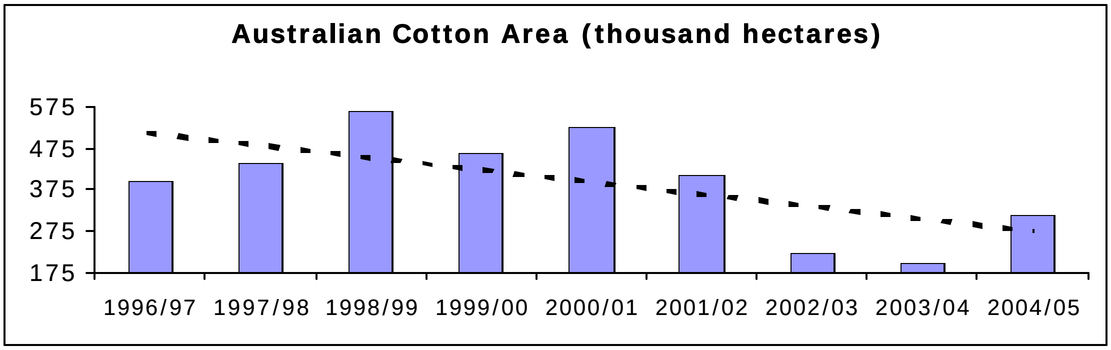
Production

Cotton lint production in 2005/06 is forecast at 680,000 MT, up 24 percent from 2004/05, and the largest cotton harvest since the pre-drought 2001/02 crop. Cotton area in 2005/06 is forecast at 400,000 hectares, up 27 percent from the estimate for 2004/05. These forecasts are based on the assumption of average seasonal conditions for the remainder of 2005/06. Post also expects cotton prices to reflect a longer-term average at the time of planting. A departure from average weather conditions and/or in the price outlook would likely change these forecasts. Typically about three-quarters of Australian cotton is grown in New South Wales and the remainder in Queensland.

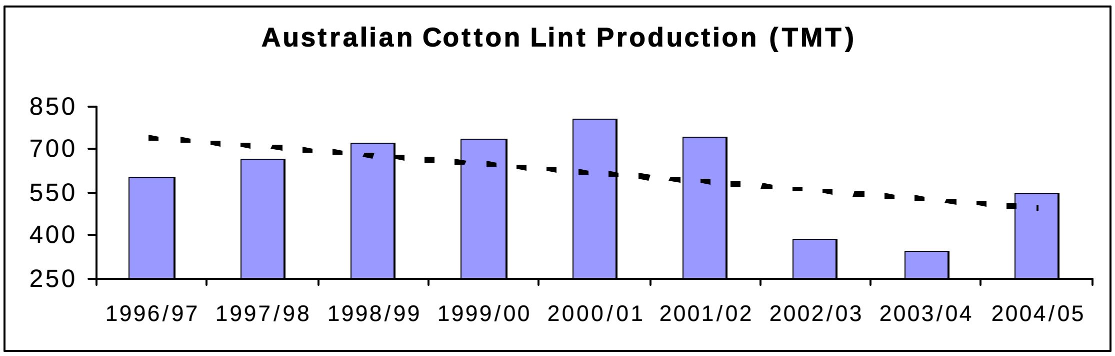
Lint production in 2004/05 is estimated at 550,000 MT, up sharply from earlier-season expectations. Above average rainfall received in the lead-up to planting and for the first half of the growing season allowed for a significant increase in area and yield, with many growers registering record or near-record yields. In addition, harvesting conditions were near ideal, benefiting both yield and quality. Some industry sources are expecting that the 2004/05 harvest could even be as high as 590,000 MT.

Cotton area in 2004/05 is estimated at 315,000 hectares, in line with industry figures and the most recent figures available from ABARE, and 42 percent higher than in 2003/04.

Improved seasonal conditions and a relatively favorable price environment at planting time helped to boost cotton area. Despite the increase, cotton area in 2004/05 is still estimated to be well below the record levels established in the late 1990's and early 2000's.



Source: ABARE data (July-June).

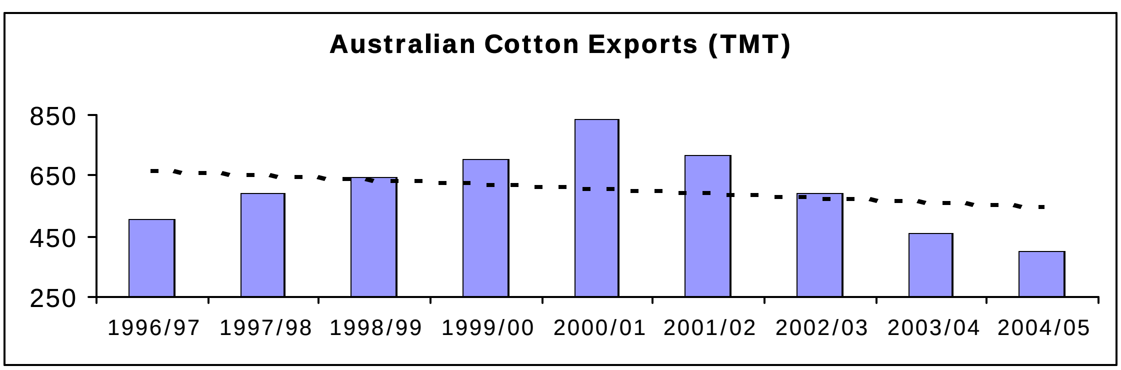


Source: ABARE data (July-June).

Exports

Cotton exports for marketing year 2005/06 (August-July) are forecast at 676,000 MT, up 24 percent from the previous year and the highest export level since 2001/02. The larger estimated cotton crop in 2004/05 and that forecast for 2005/06 is expected to significantly boost the availability of cotton for export.

Cotton exports in MY 2004/05 are projected at 545,000 MT, 16 percent higher than the previous year. Despite the increase, 2004/05 exports would be at a level well under that of the late 1990's and early 2000's, and the record level of over 800,000 MT in 2000/01.



Source: ABARE data (July-June).

Australia exports a significant portion of domestic production. The bulk of exports are destined for Asian markets. Recently, the primary cotton markets for Australia have been Indonesia, China, South Korea, Thailand, Japan and Pakistan. Vietnam is a country that Australia views as an emerging market for Australian cotton. Relatively small quantities of Australian cotton are exported to Europe.

Consumption

There are no reliable domestic sources for estimates of domestic consumption of cotton. Available information would suggest that domestic consumption is flat, or declining, year-over-year. Australia supports only a relatively small cotton processing industry. According to industry sources, domestic consumption is likely about 25,000 MT, with some suggesting a somewhat higher figure.

Policy

Free Trade Agreements

Australia implemented free trade agreements (FTA's) with Singapore in 2003 and with Thailand and the United States in January 2005. Additional FTA's have been proposed or are being negotiated with Malaysia, the Association of Southeast Asian Nations, China and the United Arab Emirates.

The Australia-U.S. FTA was implemented on January 1, 2005. Under the agreement, new U.S. duty free tariff rate quotas were established for Australian cotton beginning at 250 MT in the first year and growing by three percent in additional years. At the same time, U.S. tariffs applied to 'over quota' cotton shipments will be phased out over 18 years. According to official Australian Bureau of Statistics (ABS) data, Australia exported 520 MT of cotton to the United States in 2003/04 (August-July). Australia's MFN tariff rate on cotton is zero.

Local agricultural interests are closely monitoring the prospects of a bilateral FTA with China, which has emerged as one of Australia's principal trading partners. In April 2005, the two countries announced that FTA negotiations will commence following consideration of a recently completed FTA feasibility study. Of note, Australia's cotton exports to China in 2003/04 (August-July) totaled 91,000 MT, up from 28,311 MT the previous year. This now ranks China as Australia's second largest cotton market, after Indonesia.

In the Thailand-Australia FTA, Thailand bound it's tariff for imports of Australian cotton at zero; the previous applied rate was already zero.

Gene Modified Cotton

Genetically modified cotton has been grown commercially in Australia since the approval and commercial introduction of insect resistant Bt, or Ingard, cotton in 1996, which was subsequently joined by herbicide tolerant Roundup Ready cotton in 2001. In 2003, Australia's Gene Technology Regulator approved an additional cotton variety – 'Bollgard II' – that contains two insecticidal 'Bt' genes (as opposed to one in 'Ingard') that are lethal for certain significant cotton pests. As for Ingard, Bollgard II was developed by Australia's CSIRO using genes provided under license from Monsanto. A Bollgard II/Roundup Ready cotton has also been developed by conventional breeding of Bollgard II with the already approved glyphosate-tolerant Roundup Ready cotton.

According to Australian biotech regulations, the licensing requirements for 'Bollgard II' varieties allow it to be used on up to 80 percent of Australia's cotton area, up from the 30 percent cap on the Ingard cotton varieties. Bollgard II was released for commercial production in the 2003/04 cotton season, but primarily for seed replication purposes. Industry sources indicate that the area sown to 'Bollgard II' reached the 80 percent limit in the 2004/05 season, while the use of Ingard is being phased out.

The environmental benefits and favorable performance of the genetically modified cotton varieties have been widely reported. According to CSIRO research, Ingard cotton has led to significant reductions in pesticide applications, with even greater reductions expected for Bollgard II. For the 2004/05 cotton season, "excellent" results have been reported for Bollgard II as regards reduced chemical usage and favorable yields, particularly for the Bollgard II/Roundup Ready variety.

There are a number of additional biotech cotton varieties currently undergoing field trials in Australia, including varieties for insect resistance, herbicide tolerance and for high oleic acid content. High oleic acid oils are considered to have a healthier fatty acid profile, and are expected to be more stable for frying purposes without the need for hydrogenation.

WTO Cotton Case

The World Trade Organization (WTO) appellate body recently upheld a finding against certain U.S. programs regarding cotton. This ruling was widely reported in Australia. The Australian Minister for Trade, Mark Vaile, characterized the outcome as providing a very positive result for cotton producers in Australia. The Minister further stated that: "the outcome reinforces efforts of the Australian-led Cairns Group and other like-minded coalitions to ensure that heavy users of agricultural subsidies live up to their existing WTO commitments."

Marketing

Cotton Australia, a non-profit corporation, is the peak industry group representing Australian cotton producers. Cotton Australia is funded by a voluntary levy, which is assessed at A$2 per bale. Over 80 percent of Australia's cotton producers reportedly contribute.

The largest processors/marketers of cotton in Australia are the Namoi Cotton Cooperative, Auscott and Queensland Cotton. The Australian Cotton Shippers Association (ACSA) represents the interests of these and other cotton processors/marketers. ACSA will typically organize marketing and promotional events for Australian cotton in major overseas markets. Typically, these events comprise trade servicing and technical seminars for end users.

Australian promotional efforts often focus on Australia's 'clean and green' image, but also on water reform and the sustainability of Australian cotton production. The water and sustainability issues have likely been highlighted because of Australia's recent production shortfalls.

Australia's cotton fiber characteristics were very favorable in 2003/04 and much improved over the previous two seasons. According to ACSA's classing statistics, only 1.9 percent of the 2003/04 cotton crop exhibited microniare greater than 5.0 NCL and 61.3 percent fell in the ideal micronaire band of 3.8 and 4.5 NCL ('premium'), with 66.9 percent exhibiting strength of 30 GPT or better. According to ACSA, using a six-year average, about 5.0 percent of the crop typically exhibits microniare higher than 5.0 NCL and about 59 percent falls in the 3.8 and 4.5 NCL band, with 50.9 percent exhibiting strength of 30 GPT or better. As regards staple characteristics, 78.8 percent of the 2003/04 crop registered staple length of 1 1/8 inches or better, compared to a six-year average of 75.3 percent.

SECTION TWO: STATISTICAL TABLES

PSD Table Cotton							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2003		08/2004		08/2005	MM/YYYY
Area Planted	0	0	0	0	0	0	(HECTARES)
Area Harvested	196000	222000	325000	315000	0	400000	(HECTARES)
Beginning Stocks	284569	313527	195954	196216	383634	203732	(MT)
Production	370135	350000	587862	550000	0	680000	(MT)
Imports	0	109	435	300	0	250	(MT)
MY Imp. from U.S.	0	0	0	0	0	0	(MT)
TOTAL SUPPLY	654704	663636	784251	746516	383634	883982	(MT)
Exports	469636	469636	413680	545000	0	676000	(MT)
USE Dom. Consumption	16329	25000	14152	25000	0	25000	(MT)
Loss Dom. Consumption	-27216	-27216	-27216	-27216	0	-27216	(MT)
TOTAL Dom. Consumption	-10887	-2216	-13064	-2216	0	-2216	(MT)
Ending Stocks	195954	196216	383634	203732	0	210198	(MT)
TOTAL DISTRIBUTION	654703	663636	784250	746516	0	883982	(MT)

Import Trade Matrix Cotton			
Time Period	Yr End Jul	Units:	MT
Imports for:	2003		2004
U.S.	35	U.S.	9
Others		Others	
India	61	China	34
Pakistan	57	India	27
Tajikistan	19	France	15
Belgium-Luxembourg	15	Belgium	15
Turkmenistan	10	Pakistan	8
Germany	9	Indonesia	1
Korea South	7		
Indonesia	4		
Vietnam	4		
United Kingdom	1		
Total for Others	187		100
Others not Listed	1		0
Grand Total	223		109

Export Trade Matrix
Cotton

Time Period	Yr End Jul	Units:	MT
Exports for:	**2003**		**2004**
U.S.	555	U.S.	520
Others		**Others**	
Indonesia	181519	Indonesia	146254
Japan	90804	China	90527
Korea South	88825	Korea South	62362
Thailand	80478	Thailand	60853
China	28311	Japan	52483
Pakistan	23552	Pakistan	24915
Italy	16306	Italy	6749
Taiwan	12875	Malaysia	4164
Ireland	8744	Taiwan	3017
India	6847	Hong Kong	3015
Total for Others	**538261**		**454339**
Others not Listed	39286		14830
Grand Total	**578102**		**469689**